

Keeping on course for sustainable growth



In closing his Budget 2027 speech, the prime minister reflected on Homer's *Odyssey*: Odysseus, the central character in the story, weathered storms and temptations, yet never lost his memory of Ithaca. A nation, he said, must know what our Ithaca is. For Malaysia, the answer is clear — a high-income nation that has escaped the middle-income trap, moved up the value chain, and restored its fiscal resilience. The fair question for the fifth Madani budget is how far along are we on that journey.

The journey thus far

The fiscal deficit has narrowed from 5.5% of gross domestic product (GDP) in 2022 to 3.7% in 2025 and is projected at 3.3% for 2027, despite an elevated fuel subsidy bill towards RM40 billion. Federal revenue for 2026 is now expected at RM363.6 billion, rising to RM380.8 billion in 2027.

Debt is the harder leg. Our revenue base remains narrow for a country with high-income ambitions despite federal debt projected at 63.7% of GDP in 2027.

Compensation of employees is still only at 33.9% of GDP — the clearest sign that higher value added has not translated into high incomes for the rakyat, even with

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the 61% increase in approved investments from 2022 to 2025.

Boosting the services economy

Historically, Malaysia's growth has been propelled by manufacturing and related sectors, but services now account for about 55% of GDP and more than 60% of total employment. Services is where small and medium enterprises (SMEs) — which contribute around 40% of GDP and employ about half the workforce — are heavily concentrated, and where high-value jobs in finance, treasury, regional headquarters, digital and professional services are created.

Budget 2027 makes a targeted intervention here. For applications received by the Malaysian Investment Development Authority from Jan 1, 2027, the enhanced Global Services Hub incentive taxes new companies at 5% on GSH income, while existing hubs pay 15% up to or equal to the exist-

ing base income and 5% above it, rewarding growth rather than mere presence. The latter will see a significant upside here as their base income was previously taxed at 24%. For a

hub earning RM120 million on a RM100 million base, the tax bill falls from about RM25 million to RM16 million — before any Pillar Two top-up, which large multinationals will still pay at a blended rate of roughly 13%.

The 15% base rate mirrors the global minimum tax, anchoring mobile service hubs and their high-value jobs in Malaysia, much as manufacturing incentives retain investment tied to physical assets. The incentive runs in five-year blocks for up to 30 years, subject to performance requirements.

Treasury and fund management already qualifies under the GSH. Budget 2027 adds features crucial to cash pooling: onshore intermediaries receive a withholding tax exemption on interest paid to non-residents and a full stamp duty exemption on foreign currency loan agreements between companies — benefits also extended to the Johor-Singapore Special Economic Zone. This revives, in narrower form, the

exemptions of the past decade's standalone Treasury Management Centre incentive.

Talent mobility is eased. DE Rantau nomad pass holders are allowed to stay and work remotely in Malaysia for two more years, and spouses of Category 1 Employment Pass holders are allowed to work. To support the needs of a rapidly ageing nation, the service tax on elderly care has been reduced from 8% to 6%, helping family members balance employment and caregiving responsibilities.

To make Malaysia more attractive for investment, the full exemption for Malaysian shipping companies is extended to year of assessment (YA) 2036, while incentives for the meetings, incentives, conferences and exhibitions sector are extended to YA2030. Stamp duty on peer-to-peer financing agreements is capped at RM10 from 2027 to 2030, replacing the full exemption expiring at end-2026. SMEs gain a one-point rate cut, to 14% on the first RM150,000 and 16% up to RM600,000 — worth up to RM6,000 each for 300,000 businesses.

Smart compliance

The compliance moves are well targeted. From YA2028, companies other than SMEs may deduct salaries only if wages are paid through bank accounts via channels permitted under the Employment Act 1955. Compliant employers bear no extra cost; however, every ringgit spent on cash wages becomes non-deductible, effectively increasing the cost of employing undocumented workers by 24 sen at the 24% corporate tax rate. The tax system thus encourages compliance with labour policy without a new levy.

Similarly, the E-Commerce Bill will hold platforms and online sellers accountable, levelling the field for local SMEs against unregulated cross-border sellers. Enforcement agencies receive RM1.1 billion, and the Government Procurement Act, in force from 2027, requires disclosure of contractors and contract values. Building on the e-invoicing and stamp duty self-assessment roll-out, these measures broaden the base by collecting what is already due rather than raising rates. Since August 2024, e-invoicing has uncovered RM4.07 billion of undeclared income from some 52,540 taxpayers and RM1.009 billion in additional tax.

Making the journey count

Turning these measures into lasting outcomes will not be without challenges. Four moves would make the journey more seamless.

First, the measures introduced need to deliver. Malaysia has announced various incentives over the years, but a gap remains between aspirations and outcomes. The enhanced GSH incentive, the outcome-based incentive framework and the accompanying tal-

ent-related measures should be judged by results, rather than approvals granted or tax forgone. Success can be measured by its ability to generate an economic multiplier effect, growth in specialist roles held by Malaysians, and increase in average wages in incentivised companies.

Second, fix the revenue base structurally. Businesses have absorbed successive tax measures since 2022, from the removal of the full foreign-sourced income exemption and introduction of capital gains tax on unlisted shares to a wider 8% service tax and a 2% dividend tax. The breathing space provided in Budgets 2026 and 2027, alongside lower SME tax rates and the enhanced GSH incentive, is welcome.

Enforcement alone will not close the revenue gap needed to support Malaysia's transition to a high-income economy. Malaysia needs a digitalised tax system, built on the Inland Revenue Board's e-invoicing roll-out, and a medium-term road map for consumption tax to carry a greater share of revenue, reducing today's heavy reliance on corporate taxes. Having such digital infrastructure will allow targeted assistance to reach those most in need efficiently.

Third, close the wage gap. Raising compensation of employees from 33.9% of GDP requires a stronger focus on outcomes measurement, beyond just mandating change alone — this applies to incentives for automation, artificial intelligence (AI) adoption, and upskilling. The additional 50% deduction for AI training can be extended beyond micro, small and medium enterprises to all businesses and widened to cover AI adoption expenditure. This must be paired with sustained investment in technical and vocational education and training and reskilling, alongside an enhanced progressive wage programme.

Fourth, legislate for investor certainty. Malaysia has the talent, market access and institutional capacity to be a regional mergers and acquisitions hub, but lacks specific tax rules for M&As and qualifying corporate reorganisations. The proposed stamp duty changes for a simpler and clearer framework, supported by education, is a step in the right direction. The carbon tax, now on hold, needs a clear timeline and account for green technology spending allowance so exporters can plan for the European Union's Carbon Border Adjustment Mechanism.

Like Odysseus, we know where Ithaca lies. Budget 2027 keeps the nation on course for sustainable growth. To reach our destination, we must be diligent in improving delivery, broadening the revenue base, and boosting wages and certainty.

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